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WE ARE FORWARDING THE FOLLOWING MATERIALS RELATED TO THE PARITY
ISSUE BETWEEN OPEC AND THE OIL INDUSTRY:

OPEC PRESS RELEASE OF APRIL 24

BRIEF PRESS STATEMENT BY SUTCLIFFE

PAPER FOR CONSUMING COUNTRY GOVERNMENTS

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MAY 1 1973

IMPERIAL OIL LIMITED

THERE ARE NO LIMITATIONS ON USE OF FIRST TWO ITEMS BUT LAST ITEM
IS FOR INTERNAL COMPANY USE ONLY UNTIL YOU ARE ADVISED OTHERWISE.

WE EXPECT TO HAVE CLEARANCE MONDAY FOR DESIGNATED AFFILIATES TO
USE IN BRIEFING CONSUMING GOVERNMENTS. PAPER IS NOT TO BE RE-
LEASED TO PRESS.

QUOTE

OPEC PRESS RELEASE

IN ACCORDANCE WITH THE DECISION TAKEN BY THE XXXII MEETING
/EXTRAORDINARY/ OF THE CONFERENCE OF THE ORGANIZATION OF THE
PETROLEUM EXPORTING COUNTRIES, HELD IN VIENNA ON THE 16TH AND
17TH MARCH, 1973, DURING WHICH WERE REVIEWED, AMONG OTHER
THINGS, THE ADVERSE EFFECTS OF THE RECENT DEVALUATION OF THE US
DOLLAR ON THE VALUE OF THE CRUDE OIL AND THE OIL REVENUES OF THE
MEMBER COUNTRIES..

AND IN ACCORDANCE WITH A DECISION TAKEN BY THE SUBSEQUENT
MINISTERIAL COMMITTEE WHICH MET IN BEIRUT ON THE 22ND MARCH,
1973, ESTABLISHING A NEGOTIATING TEAM COMPOSED OF THE HEADS OF
DELEGATION OF IRAQ, KUWAIT AND THE LIBYAN ARAB REPUBLIC TO
NEGOTIATE WITH THE OIL COMPANIES AND AMEND THE GENEVA AGREEMENT
WITH A VIEW TO OBTAINING FULL COMPENSATION FOR THE DEVALUATION OF
THE US DOLLAR AND AVOIDING ANY FUTURE LOOPHOLES:

1

THE NEGOTIATING TEAM INVITED THE OIL COMPANIES' REPRESENTATIVES FOR NEGOTIATIONS WHICH WERE SCHEDULED TO BEGIN IN BEIRUT ON THE 12TH APRILN 1973. THE MEETINGS WERE EVENTUALLY HELD IN CAIRO ON THE 13TH AND 14TH APRIL, 1973. DURING THESE MEETINGS THE NEGOTIATING TEAM FORWARDED TO THE OIL COMPANIES REPRESENTATIVES A WRITTEN PROPOSAL FOR THE AMENDMENT OF THE GENEVA AGREEMENT.

UPON THE REQUEST OF THE OIL COMPANIES' REPRESENTATIVES, THE NEGOTIATIONS WERE SUSPENDED IN ORDER TO ALLOW FOR THEM TO CONSULT WITH THEIR COMPANIES. ACCORDINGLY THE NEGOTIATIONS WERE RESUMED IN VIENNA ON THE 23RD APRIL, 1973. THE OIL COMPANIES SUBMITTED A WRITTEN COUNTER-PROPOSAL OUTLINING THEIR VIEWS ON THE ISSUE, AND PROPOSING CERTAIN MINOR AMENDMENTS WHILE IGNORING THE SUBSTANCE OF THE PROBLEM. THE NEGOTIATING TEAM REGRETS SUCH A NEGATIVE ATTITUDE ON THE PART OF THE OIL COMPANIES' REPRESENTATIVES AND HAS, THEREFORE, DECIDED TO CALL FOR AN EXTRAORDINARY CONFERENCE TO BE HELD IN TRIPOLI ON THE 7TH MAY, 1973M

THE NEGOTIATING TEAM IS, HOWEVER, LEAVING THE DOOR OPEN UP TO 4TH MAY, 1973 FOR THE OIL COMPANIES' REPRESENTATIVES TO SUBMIT POSITIVE PROPOSALS THAT COULD FORM A PROPER BASIS FOR SERIOUS DISCUSSIONS: WITH A VIEW TO PROTECTING THE VALUE OF CRUDE OIL AND THE OIL REVENUES OF MEMBER COUNTRIES FROM ANY ADVERSE EFFECTS OF THE PRESENT AND FUTURE DISTURBANCES IN THE WORLD MONETARY SITUATION. UNQUOTE

QUOTE:

SUTTCLIFFE STATEMENT

AFTER THE OPEC PRESS RELEASE

SUTTCLIFFE WAS APPROACHED BY REPRESENTATIVES OF BBC, REUTERS AND AUSTRIAN PRESS AGENCY.

HE DECLINED TO SPECULATE ON POSSIBLE FUTURE DEVELOPMENTS OR TO EXPRESS OPTIMISM OR PESSIMISM. IN REPLY TO A QUESTION FROM REUTERS /DID THE COMPANIES TALBE A PROPOSAL FOR A FURTHER 7.2 0/0 INCREASE IN PRICE?/ HE EXPLAINED THAT THE OPERATION OF THE GENEVA AGREEMENT HAT ALREADY RESULTED IN AN INCREASE OF ABOUT 6 0/0 ON 1ST APRIL. THE COMPANIES HAD PROPOSED THAT THE NEXT CALCULATION OF THE GENEVA FORMULA SHOULD BE SPEEDED UP AND THIS WOULD RESULT IN A FUTHER INCREASE WHICH WOULD BRING THECUMULATIVE INCREASE /INCLUSIVE OF THE 1ST APRIL ADJUSTMENT/ UP TO ABOUT 7.2 0/0

UNQUOTE

QUOTE

PAPER FOR CONSUMING COUNTRY
GOVERNMENTS

INDUSTRY REPRESENTATIVES MET WITH AN OPEC NEGOTIATING TEAM HEADED BY MINISTER MABRUK OF LIBYA FIRST IN CAIRO AND THEN IN VIENNA DURING THE PERIOD APRIL 13 TO 24, 1973 TO DISCUSS OPEC'S DEMANDS FOR CHANGES IN THE GENEVA AND RELATED PARITY AGREEMENTS. WHILE THE COMPANIES WERE WILLING TO MAKE CERTAIN CHANGES IN THE MECHANICS OF THE AGREEMENT, THEY DID NOT ACCEPT OPEC'S DEMAND FOR FUNDAMENTAL CHANGES IN THE AGREEMENT, IN PARTICULAR THAT THEIR OIL REVENUES BE KEPT CONSTANT IN TERMS OF GOLD.

NEGOTIATIONS ARE NOW SUSPENDED. THE OPEC MINISTERIAL COMMITTEE HAS GIVEN OIL COMPANY REPRESENTATIVES UNTIL MAY 4 TO SUEMIT /POSITIVE PROPOSALS THAT COULD FORM A PROPER BASIS FOR SERIOUS DISCUSSIONS/. THE MINISTERIAL COMMITTEE HAS CALLED FOR AN EXTRAORDINARY CONFERENCE OF OPEC ON MAY 7 IN LIBYA TO DISCUSS WHAT THE MINISTERS DESCRIBE AS THE /NEGATIVE ATTITUDE/ OF THE COMPANIES IN RESPONSE TO THEIR REQUEST FOR ADJUSTMENT OF THE 1972 PARITY AGREEMENTS.

BACKGROUND:

3

OPEC HAS LONG BEEN CONCERNED ABOUT PROTECTING THE PURCHASING POWER OF THEIR OIL REVENUES IN THE FACE OF LONG-TERM WORLDWIDE INFLATION. FOR EXAMPLE, OPEC RESOLUTION NO. 90 PASSED ON JUNE 25, 1968 STATED IN PART:

/SUCH PRICE /POSTED PRICE/ --- SHALL MOVE IN SUCH A MANNER AS TO PREVENT ANY DETERIORATION IN ITS RELATIONSHIP TO THE PRICES OF MANUFACTURED GOODS TRADED INTERNATIONALLY./

LATER, AFTER THE DEVALUATION OF THE DOLLAR IN AUGUST 1971, OPEC MET IN BEIRUT ON SEPTEMBER 22, 1971 AND

PASSED RESOLUTION NO. 140 WHICH CONTAINED THE FOLLOWING:

/NOTING THAT THESE DEVELOPMENTS HAVE RESULTED IN A DE FACTO DEVALUATION OF THE U.S. DOLLAR---

-- -----

VIS-VIS THE CURRENCIES OF THE MAJOR INDUSTRIAL COUNTRIES.../IT IS RESOLVED/ THAT MEMBER COUNTRIES SHALL TAKE NECESSARY ACTION--- TO OFFSET ANY ADVERSE EFFECT ON THE PER BARREL REAL INCOME OF MEMBER COUNTRIES./

THESE OBJECTIVES WERE MET IN 1972, BY THE SIGNING OF AGREEMENTS BETWEEN THE OIL COMPANIES AND PRODUCER GOVERNMENTS.

THESE AGREEMENTS WERE STRUCTURED TO ACHIEVE THE PRODUCING GOVERNMENTS' OBJECTIVE OF ASSURING THAT THE PURCHASING POWER OF THEIR OIL INCOME WOULD BE PROTECTED FROM THE EFFECTS OF CHANGES IN CURRENCY VALUES. THEY PROVIDED FOR:

/A/ AN IMMEDIATE INCREASE IN POSTINGS OF 8.49 PERCENT /WHICH TRANSLATED INTO AT LEAST AN 8.6 PERCENT INCREASE IN GOVERNMENT TAKE/ AND,

B/ A PROCEDURE AND FORMULA FOR MAKING FURTHER REVISIONS TO THE POSTED PRICES IN THE EVENT OF SUBSEQUENT MAJOR CHANGES

4

IN THE PARITIES OF NINE IMPORTANT WORLD CURRENCIES VERSUS THE U.S. DOLLAR.

FROM ALL THE DATA THE COMPANIES HAVE BEEN ABLE TO EXAMINE, THE SUBSEQUENT PRACTICAL OPERATION OF THE AGREEMENTS APPEARS TO HAVE BEEN SATISFACTORY IN MORE THAN FULLY COMPENSATING THE GOVERNMENTS FOR THE EFFECT OF CURRENCY CHANGES ON THEIR PURCHASING POWER.

OPEC DEMANDS:

AT THE MEETING IN CAIRO ON APRIL 14, 1973 THE OPEC REPRESENTATIVES SUBMITTED A LIST OF DEMANDS TO THE OIL COMPANIES' NEGOTIATING TEAM. THESE INCLUDED:

1. POSTED PRICES TO BE ADJUSTED TO REFLECT THE HIGHER OF THE FOLLOWING:
 - A. PERCENTAGE CHANGE OF THE DOLLAR VS. GOLD AND/OR SPECIAL DRAWING RIGHTS.
 - B. PARITY OF THE DOLLAR VS. THE OTHER MAJOR CURRENCIES, USING AN AMENDED FORMULA.
2. POSTED PRICES NEVER TO BE DECREASED BELOW THE HIGHEST LEVELS RESULTING FROM 1 /A/ ABOVE.
3. CERTAIN PROCEDURAL CHANGES TO BE MADE TO REDUCE THE TIME LAG FOR IMPLEMENTING POSTED PRICE CHANGES.
4. ACCOUNTS RECEIVABLE FOR CRUDE DELIVERED PRIOR TO ANY DEVALUATION TO BE CORRECTED TO COMPENSATE FOR THE DEVALUATION.
5. /AN APPROPRIATE PERIODIC REVIEW AND RENEGOTIATION CLAUSE/ TO BE PROVIDED.

DURING THE COURSE OF THE NEGOTIATIONS THE COMPANIES REJECTED THE OPEC DEMANDS RELATING TO FUNDAMENTAL CHANGES IN THE BASIS FOR THE GENEVA AGREEMENT ADJUSTMENTS, BUT AGREED TO AMEND CERTAIN OF THE IMPLEMENTING PROCEDURES IN ORDER TO REDUCE THE TIME LAG FOR EFFECTING POSTED PRICE CHANGES AND TO MAKE THE FORMULA MORE SENSITIVE TO SMALL CHANGES IN PARITIES.

THESE CHANGES WOULD RESULT IN ADDITIONAL GOVERNMENT REVENUES IN THE NEAR FUTURE BECAUSE POSTED PRICE ADJUSTMENTS WOULD BECOME EFFECTIVE EARLIER.

SPECIFIC PROPOSALS MADE BY THE COMPANIES WERE:

1. A SHORTENING OF THE PERIOD BETWEEN THE DATE FOR CALCULATION OF THE FORMULA AND THE DATE FOR ANY RESULTING POSTED PRICE ADJUSTMENT, FROM A CALENDAR MONTH TO ABOUT HALF-A-MONTH:
2. RECALCULATION OF THE AVERAGE OF THE NINE CURRENCIES MONTHLY INSTEAD OF QUARTERLY:
3. REDUCTION OF THE VARIATION OF THE AVERAGE REQUIRED TO PRODUCE A CHANGE, FROM TWO POINTS UP OR DOWN TO ONE POINT UP OR DOWN:
4. FOR FLOATING CURRENCIES, USE OF A FIFTEEN-DAY PERIOD INSTEAD OF A CALENDAR MONTH PERIOD FOR CALCULATION OF THE AVERAGE

WHEREAS THE COMPANIES HAD AGREED IN PRINCIPLE TO OPEC'S EARLIER DEMAND THAT THE LEVEL OF THEIR OIL REVENUES SHOULD BE PROTECTED AGAINST THE EFFECTS OF CURRENCY CHANGES, THE COMPANIES DID NOT ACCEPT THE PROPOSALS CALLING FOR A TIE TO THE GOLD-DOLLAR RELATION. THIS DEMAND REPRESENTS A REJECTION OF THE FUNDAMENTAL BASIS FOR THE WHOLE GENEVA AGREEMENT.

THIS NEW DEMAND IS IN VIOLATION OF THE PRINCIPLE WHICH HAD BEEN AGREED, AND WOULD RESULT IN INCREASES IN PRODUCING COUNTRY REVENUES SUBSTANTIALLY IN EXCESS OF INCREASES

6

IN THE COST OF THEIR IMPORTS RESULTING FROM CURRENCY CHANGES. WHILE IT IS TRUE THAT THE VALUE OF THEIR INCOME HAS DECREASED IN TERMS OF THE OFFICIAL PRICE OF GOLD, THIS WOULD BE RELEVANT ONLY IF THE OPEC COUNTRIES SPENT ALL THEIR INCOMES TO PURCHASE GOLD OR IF THEY BOUGHT ALL THEIR IMPORTS FROM NATIONS WHICH MAINTAINED THE VALUE OF THEIR CURRENCY CONSTANT IN TERMS OF GOLD WHEN THE DOLLAR DEVALUED. IN FORMER TIMES, WHEN MOST OF THE WORLD WAS ON THE GOLD STANDARD AND CURRENCIES WERE FREELY CONVERTIBLE INTO GOLD, IT MADE SOME SENSE TO VIEW PURCHASING POWER IN TERMS OF GOLD. HOWEVER, THE VALUES OF KEY INTERNATIONAL CURRENCIES ARE NOW FLOATING AND FOR SEVERAL YEARS HAVE NOT BEEN FREELY CONVERTIBLE INTO GOLD. PRIOR TO THE FEBRUARY 12, 1973 DEVALUATION, NO ONE COULD BUY GOLD AT THE OFFICIAL PRICE OF DOLLARS 35 PER OUNCE AND AFTERWARDS NO ONE COULD BUY IT AT THE OFFICIAL PRICE OF DOLLARS 42.22 PER OUNCE. UNDER THESE CIRCUMSTANCES ACCEPTANCE OF THE CONCEPT OF PROTECTING OIL REVENUES IN TERMS OF THE OFFICIAL PRICE OF GOLD WOULD CREATE UNJUSTIFIED WINDFALL PROFITS FOR THE PRODUCING COUNTRY GOVERNMENTS. OPEC'S DEMAND FOR A GENERAL RENEGOTIATION CLAUSE WAS ALSO REJECTED. THE GENEVA AND OTHER PARITY AGREEMENTS WERE DESIGNED TO ADJUST POSTINGS AUTOMATICALLY, ADEQUATELY, AND FAIRLY IN RESPONSE TO CURRENCY CHANGES, AND THE TERMS WERE ACCEPTED BY ALL PARTIES. THE COMPANIES SEE NO JUSTIFICATION FOR PROVIDING FOR FUTURE REVIEW AND RENEGOTIATION OF THE AGREEMENT DURING ITS TERM. IT SHOULD BE NOTED IN THIS CONTEXT THAT, IN THE FUTURE, THE DOLLAR MAY EITHER INCREASE OR DECREASE IN VALUE IN RELATION TO THE OTHER MAJOR CURRENCIES. THE COMPANIES ARE CONCERNED THAT OPEC MIGHT USE ANY RENEGOTIATION CLAUSE TO FREEZE THE LEVEL OF THEIR REVENUES IN THE EVENT THAT THE DOLLAR STRENGTHENS IN THE FUTURE AND THEREBY CAUSES A DECREASE IN POSTED PRICES UNDER THE EXISTING AGREEMENTS. UNQUOTE